

Message Text

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EB-08 EA-10 FRB-03 INR-10 NEA-11 NSAE-00 ICA-11
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 DOE-15 SOE-02 ACDA-12 L-03 FAA-00
DOTE-00 CAB-02 STR-07 DODE-00 H-01 INT-05 NSC-05
PA-01 CTME-00 ITC-01 /165 W
-----079896 151857Z /72

R 151732Z JUN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7190
INFO ALL EC CAPITALS
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 09489

USEEC ALSO FOR EMBASSY
USOECD ALSO FOR EMBASSY

E.O. 11652: GDS
TAGS: ETRD, EAIR, EFIN, UK
SUBJECT: A CHILL IN US-UK ECONOMIC RELATIONS?

1. THE LAST SEVERAL WEEKS HAVE WITNESSED SOME COOLING
OF US-UK ECONOMIC RELATIONS. STATEMENTS MADE BY BRITISH
GOVERNMENT LEADERS INDICATE THAT MORE BAD NEWS MAY BE
COMING.

2. THE ISSUES THAT HAVE ARISEN INCLUDE, BUT ARE NOT
LIMITED TO:

-- THE MTN. THE BRITISH ARE (RIGHTLY) REGARDED
AS AMONG THE LEADING OBSTACLES TO ACHIEVING RESULTS
SATISFACTORY TO US.

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-- STEEL. THE BRITISH ARE EXERCISED OVER THE
DIMINUTION OF BSC'S EXPORTS TO THE U.S. RESULTING FROM
CONTINUANCE OF INDIVIDUAL ANTI-DUMPING COMPLAINTS, AND
ARE BLOCKING A U.S. INTERNATIONAL INITIATIVE.

-- ILLICIT PAYMENTS. WHILE THE BRITISH ARE NOT

ALONE IN THEIR VIEWS, THE SHIFT IN THE FRENCH POSITION
HIGHLIGHTS THE U.K. AS OBSTRUCTIONIST.

-- CIVIL AVIATION. THE BRITISH HAVE TURNED DOWN
A PRESIDENTIAL APPEAL TO ALLOW TWO U.S. CARRIERS TO
SERVE BOSTON-LONDON.

3. THE BRITISH HAVE ALSO, IN WAYS LESS DIRECTLY OR
IMMEDIATELY IMPINGING ON U.S. OBJECTIVES, GIVEN INDICA-
TIONS THAT THEY MAY CAUSE TROUBLE IN THE FUTURE. OVER
THE LAST SIX WEEKS THERE HAS BEEN A PICKUP IN THE
VOLUME OF HIGH LEVEL BRITISH PREDICTIONS THAT PROTECTION-
ISM WILL DEVELOP, UNLESS.... WHILE TRADE SECRETARY
DELL HAS BEEN THE MAIN PERFORMER ON THIS CIRCUIT, OTHER
SENIOR MINISTERS -- OWEN, HEALEY, AND CALLAGHAN TOO --
HAVE MADE SIMILAR QUASI-PROTECTIONIST NOISES.

4. IS THERE A PATTERN, OR ARE THE BRITISH SIMPLY REACT-
ING ISSUE-BY-ISSUE IN LINE WITH THEIR NATIONAL INTEREST?
THE LATTER HYPOTHESIS IS TEMPTING, AND MAY BE THE RIGHT
ONE. BUT IF THERE IS A PATTERN, COULD IT BE THAT THE
U.K. -- BEHAVING LIKE SOME OTHER COUNTRIES -- IS BUILD-
ING ITS CASE AND BARGAINING POSITION FOR THE BONN SUMMIT?

5. THE BONN SUMMIT CAN BE REGARDED AS A NEGOTIATION IN
WHICH EACH PARTICIPANT COUNTRY OFFERS SOME THINGS IN
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ORDER TO RECEIVE OTHER BENEFITS, WITH THE AIM BEING A
RESULT WHICH IS GENERALLY BENEFICIAL. BRITAIN'S PROBLEM
IS THAT IT HAS LITTLE POSITIVE TO OFFER. THE APRIL
BUDGET PLUS SUBSEQUENT CONSERVATIVE-SPONSORED TAX CUTS
PRODUCED AS MUCH ECONOMIC STIMULATION AS THE U.K.
ECONOMY CAN SAFELY HANDLE. THE OFFICIAL BRITISH LINE
IS THAT THE (RATHER GRUDGING AND QUALIFIED) CONCESSIONS
IT IS WILLING TO MAKE IN THE MTN CAN BE REGARDED AS ITS
SUMMIT CONTRIBUTION. HOWEVER, IT MAY BE THAT HMG IS
DELIBERATELY PUTTING FORWARD THREATS OF PROTECTIONISM
AS AN ADDITIONAL, NEGATIVE, INCENTIVE TO GERMANY AND
JAPAN TO REFLATE.

6. THE SUMMIT MAY OR MAY NOT END THIS PROCESS. THERE IS
A DRIFT TOWARD PROTECTIONIST THINKING IN THE U.K. IF
THE SUMMIT IS NOT FOLLOWED BY WORLDWIDE ECONOMIC EXPAN-
SION, THE PROSPECTS FOR BRITISH TRADE POLICY IN 1979, AND
INDEED FOR BRITAIN'S OVERALL INTERNATIONAL ECONOMIC
STANCE, ARE GLOOMY.

7. EVEN IF THERE IS NO EXPLICIT PATTERN TO BRITISH
BEHAVIOR, WE HAVE A PROBLEM, AND ONE WHICH IS DIFFICULT

TO DEAL WITH ON A CASE-BY-CASE BASIS. FOR EXAMPLE, THE
BRITISH HAVE LITTLE OR NO POSITIVE INTEREST IN THE MTN;
THEY THINK WE HAVE OFFERED THEM LITTLE BY WAY OF
LIBERALIZATION ON THE LIMITED NUMBER OF PRODUCTS THEY

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 09489

FEEL COMPETITIVE IN; FOR THE REST, THEIR INTERESTS ARE
PURELY DEFENSIVE. SOME OF THE THINGS THE BRITISH WANT
-- NOTABLY GERMAN REFLATION -- ARE NOT WITHIN OUR POWER
TO DELIVER. AND IN THE JAOANESE CASE, WHERE WE HAVE MORE
LEVERAGE, WE'VE CHOSEN TO GO IT ALONE WHICH IS NOT ALWAYS
IN BRITAIN'S INTEREST AS THE BRITISH SEE IT.

8. DESPITE THESE TRENDS, THE BRITISH DESIRE TO PRESERVE
THE "SPECIAL RELATIONSHIP" -- PARTICULARLY ON THE PART
OF THE PRIME MINISTER -- GIVES US A STRONG CARD. BUT IT
CANNOT BE PLAYED TOO OFTEN AND ON TOUGH ISSUES OF MAJOR
IMPORTANCE TO THE BRITISH. WE CAN EXPECT THEM TO BARGAIN
HARD BEFORE THEY MAKE FINAL CONCESSIONS BASED ON US-UK
TIES.

9. THERE IS A TENDENCY, TOO, TO VIEW THE DIFFICULTIES IN
US-UK ECONOMIC RELATIONS IN PERSONAL TERMS. MOST OF THE

PROBLEMS HAVE EMERGED IN THE AREA SUPERVISED BY EDMUND
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DELL, WHO IRRITATES, BOTH BY THE DECISIONS HE MAKES AND BY THE SPEECHES HE GIVES. THE FACT THAT, ABSENT GOOD SPECIFIC ARGUMENTS, WE HAVE TO APPEAL TO BROAD POLITICAL CONSIDERATIONS, COUPLED WITH DELL'S PERSONALITY AND PERFORMANCE, PRODUCES NATURALLY A RESPONSE OF "LET'S GO TO CALLAGHAN." THIS IS A ROUTE WE'LL HAVE TO TAKE (AS IN MTN), BUT IT SHOULD NOT BE TAKEN TOO OFTEN, AND TOO MUCH SHOULD NOT BE EXPECTED OF IT, BECAUSE:

(A) WE DON'T THINK DELL IS ACTING ON HIS OWN, BUT RATHER WITH CALLAGHAN'S APPROVAL.

(B) IT IS DIFFICULT TO CIRCUMVENT DELL, AND THE EFFORT TO DO SO HAS OBVIOUS COSTS. CALLAGHAN MAY PERSONALLY INTERVENE, BUT WE BELIEVE HE WILL BE INCLINED TO WEIGH-IN ONLY IF THE ISSUE SEEMS OF GREAT CONSEQUENCE.

10. IN THESE CIRCUMSTANCES, WE MAY FIND IT PROFITABLE TO TAKE A BROADER APPROACH TO ISSUES, POSSIBLY EVEN LOOKING FOR TRADE-OFFS BETWEEN ISSUES IN FIELDS THAT MAY SEEM UNRELATED, AND WE SHOULD NOT OVERLOOK THE POSSIBILITIES OFFERED BY THE FREQUENT CONTACTS BETWEEN THE SECRETARY AND DAVID OWEN AND AMONG OTHERS SUCH AS BOB STRAUSS AND HIS COUNTERPARTS TO PRESS HOME OUR POINTS.
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